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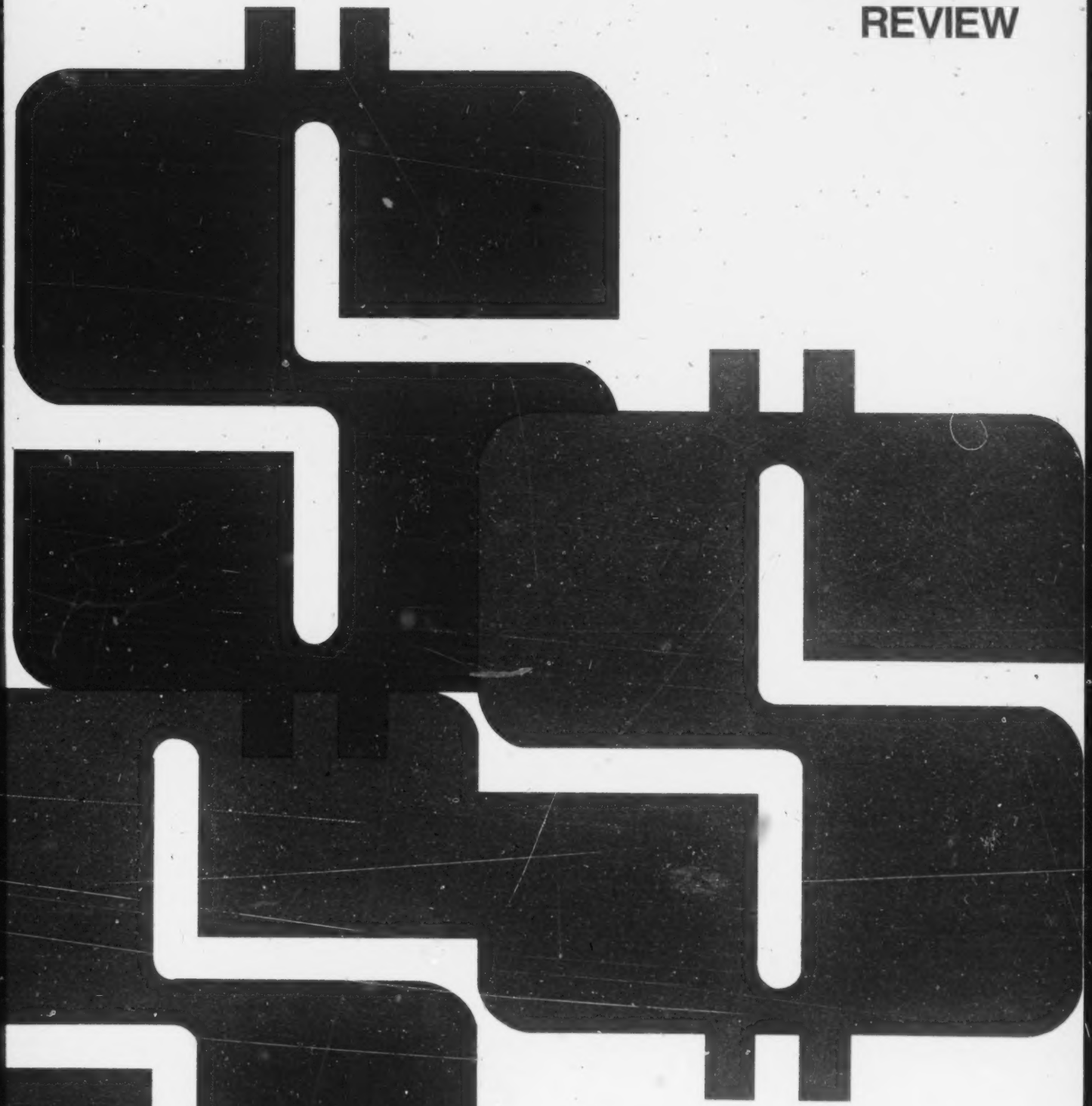
FMI 1978 ANNUAL FINANCIAL REVIEW



The Annual Report of the Supermarket Industry

Conducted by:

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PREFACE

The Annual Financial Review is essentially a financial track record of the supermarket industry. This report uses a statistical procedure which provides figures relevant to the entire industry rather than to an arbitrary sample of companies and thereby overcomes one of the major limitations of current industry financial statistics. It is designed to aid the industry and the public to better understand the economics of the supermarket industry. The Annual Financial Review provides a unique financial picture of the *entire* supermarket industry, the only known source of its kind.

A brief visual analysis of industry financial trends is in the beginning of the report. The last pages include dollar estimates of an industry income statement and balance sheet.

For this report, the definition of a supermarket is based on the 1972 Census of Retail Trade. All grocery stores with annual sales of $1 million or more are considered supermarkets. Since the supermarket industry is based on the U.S. Census, the numbers in this report will differ from those published in other industry reports.

Information in this report is derived from a mail survey and from public financial reports, including data from private and public corporations. For more information on how this report was developed, see the methodology section on the last page.

The financial well-being of the supermarket industry has been affected by the high inflation rates of recent years, which distort sales, profits, and inventories. In this report, two approaches were used to help eliminate these distortions.

1. For some estimates, current dollars (e.g. 1978 dollars) were deflated by the CPI for food at home to give real dollars (1967 dollars).
2. Some industry estimates were reported as percentages instead of dollars.

CONTENTS

Preface 1

Introduction 5

Financial Picture 6
Assets & Liabilities 7
Profits 8

Income Statement 11

Balance Sheet 12

Sources and Uses of Funds 14

Methodology 16

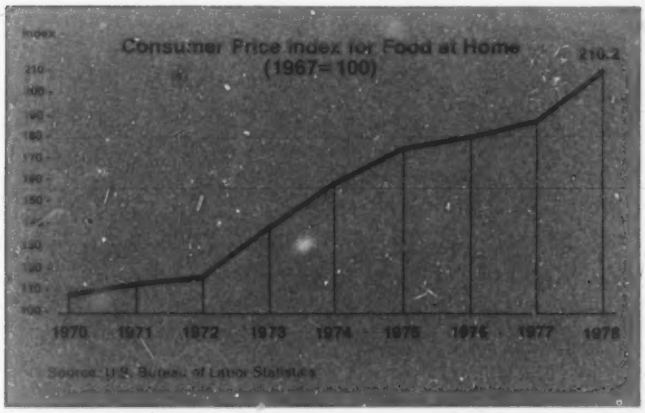
INTRODUCTION

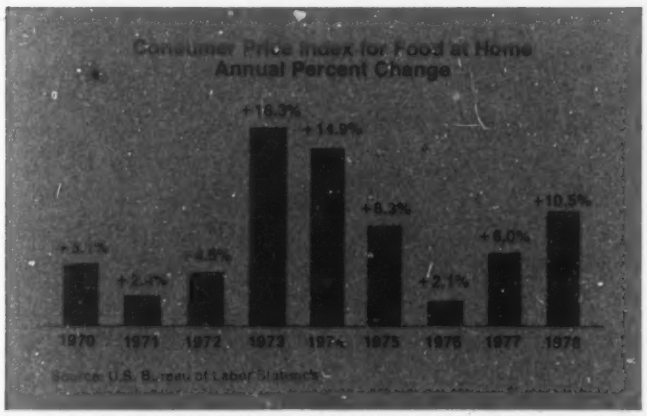
The overall economic setting can be described as disappointing when considering the fact that our economy had been slowly, but healthily recovering in recent years. Some of the gains made in 1977 did carry over into 1978, such as in employment, in personal income and in a significant decrease in the rate of unemployment. But many factors have overshadowed these gains:

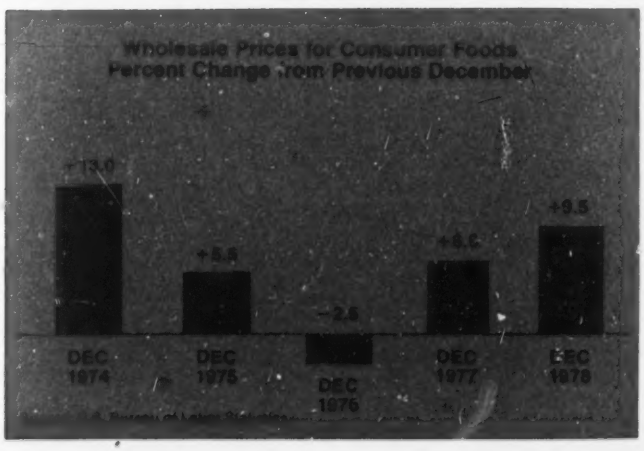
- Oil imports amounted to 46 percent of total U.S. supply
- Our vulnerability to imports has been underscored with the Iranian shutdown and with an OPEC price rise to come of at least 9 percent on the barrel
- Diesel fuel and gasoline shortages started plaguing many parts of the country
- Many agricultural commodities decreased in production, due in part to heavy rains and another hard winter
- Beef production cycle was still at a low point
- A sizeable deficit in our international volume of trade
- Record declines in the value of the dollar
- An inflation rate which rose to an annual average of around 9 percent.

Reconciliation of these factors with the ongoing operations of food distributors during a period of uncertainty is difficult. The diverse impact of these factors leads to volatile industry performance.

The following pages provide a closer look at the financial picture of the industry.







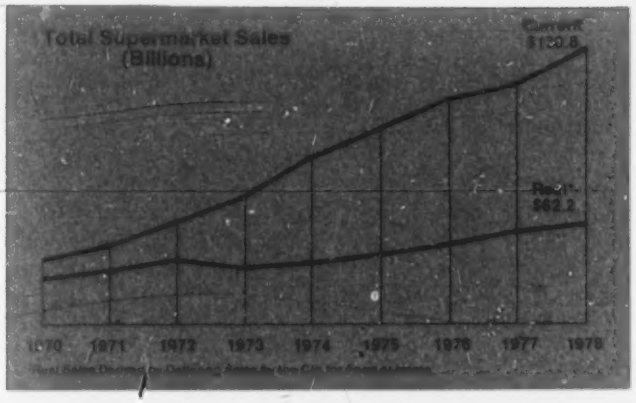
FINANCIAL PICTURE

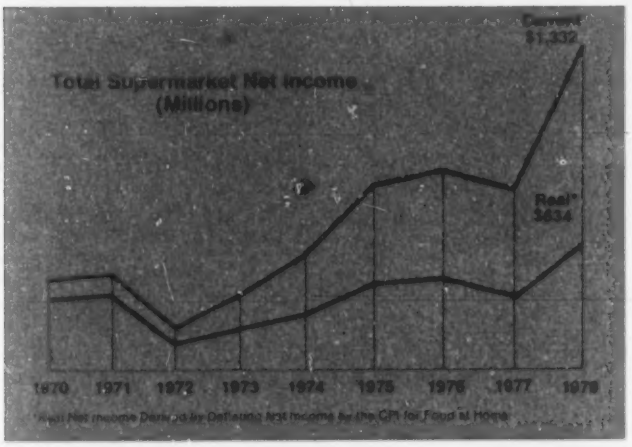
Industry sales continued their long term growth, reaching a record $130.8 billion in 1978. Most of this growth, however, was due to inflation. Real sales grew only 1.3% during 1978.

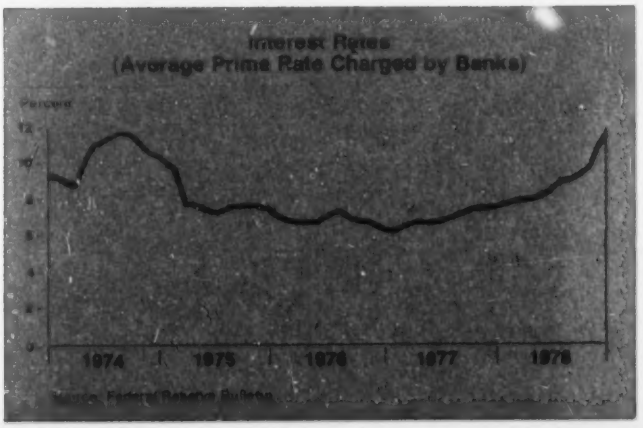
Total industry net income rebounded sharply from the decline in 1977. Real dollar income was up 24 percent over the previous high in 1976.

Interest rates increased throughout 1978. The tightening of money was a reflection of the fiscal restraint which was being used to curb inflation.

(Note: Deflating net income by the CPI for food at home provides only an approximate estimate of inflation. However, it does give the reader an idea of what has happened to real profit dollars.)







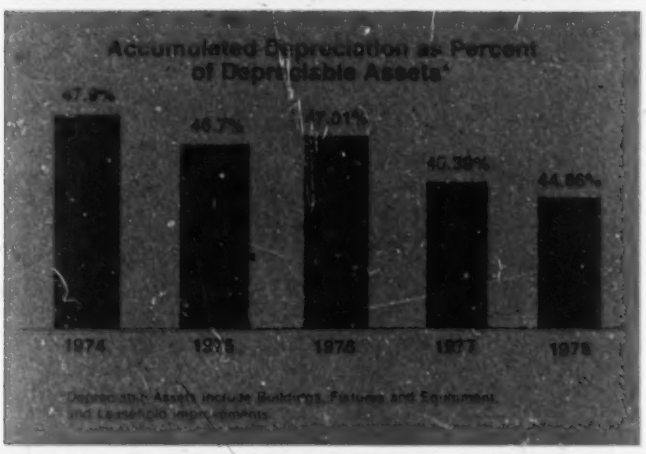
Assets & Liabilities

As more companies comply with provisions of the Financial Accounting Standards Board Statement #13, lease capitalization continues to affect the balance sheet of the supermarket industry.

Amounts previously reported have not been restated to reflect the impact of lease capitalization, therefore caution should be used when making any comparisons.

Asset Categories as Percent of Total Assets

	1974	1975	1976	1977	1978
Other Assets	6%	6%	6%	5%	5%
Net Property & Equipment	36	37	37	39	42
Other Current Assets	19	20	18	19	18
Inventory	39	37	39	37	35
	100%	100%	100%	100%	100%



*Depreciable Assets include Buildings, Fixtures and Equipment and Leasehold Improvements

Liabilities and Net Worth Categories as Percent of Total

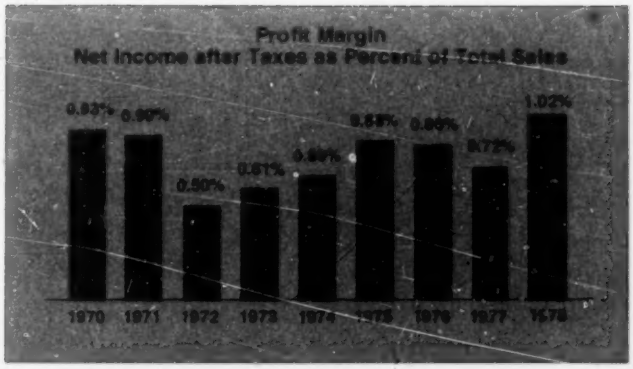
	1974	1975	1976	1977	1978
Other Net Worth	14%	14%	14%	20%	11%
Retained Earnings	29	31	31	25	27
Long Term Liabilities	19	17	18	20	26
Current Liabilities	38	38	37	35	36
	100%	100%	100%	100%	100%

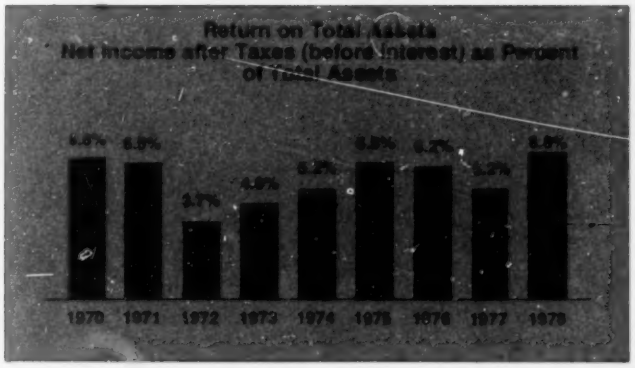
PROFITS

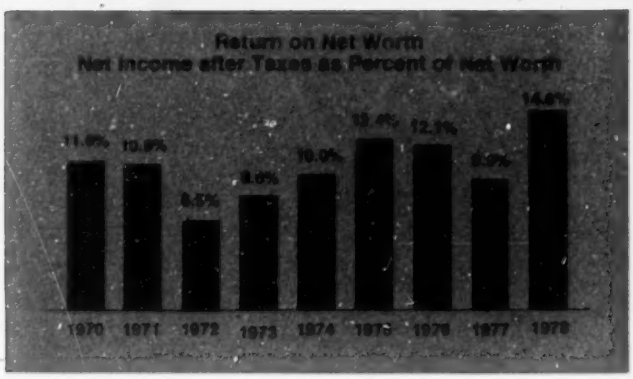
Again this year, the highly competitive market coupled with surging inflation leaves the industry with wide year-to-year swings in profit levels. In 1978, the swing was to the upside with after-tax net profit reaching 1.02% of sales.

This is the first time in the decade of the '70's that this figure has risen above one percent, a level common during the decade of the '60's. As recently as 1972, the level was half that at 0.50% of sales. Return on equity in 1978 rose to 14.6 percent and return on assets to 6.8 percent.

One additional change is worth noting this year. The larger company categories turned in the best profit performance. During the '70's, the smaller firms have typically been the most profitable, often by a wide margin. In fact, over the last five years the largest profit rates have been turned in by our smallest size category—those with sales of less than $10 million.







Profitability by Size Category

PROFIT MARGIN

Net Income after Taxes as a Percent of Total Sales

Firm Sales (millions)	1974	1975	1976	1977	1978
Less than $10.0	1.20	0.99	1.20	0.95	0.92
$10.0-$99.9	0.92	0.92	0.78	0.76	0.93
$100.0-$499.9	0.79	0.91	0.95	0.76	0.93
$500.0 and over	0.34	0.80	0.68	0.58	1.13

RETURN ON TOTAL ASSETS

Net Income after Taxes (before interest)* as Percent of Total Assets

Firm Sales (millions)	1974	1975	1976	1977	1978
Less than $10.0	9.3	8.3	9.8	7.9	7.6
$10.0-$99.9	6.4	7.3	6.6	6.1	6.9
$100.0-$499.9	5.9	6.8	6.3	5.1	6.5
$500.0 and over	2.6	5.3	4.3	4.2	6.5

**Net Income + Interest (1-tax rate)*

RETURN ON NET WORTH

Net Income after Taxes as a Percent of Net Worth

Firm Sales (millions)	1974	1975	1976	1977	1978
Less than $10.0	17.0	15.4	18.8	13.2	13.4
$10.0-$99.9	13.4	14.6	13.0	12.2	15.1
$100.0-$499.9	12.1	11.8	11.6	10.0	14.2
$500.0 and over	4.7	10.4	8.8	7.9	15.7

FINANCIAL STATEMENTS

5 YEAR SUMMARY

Income Statement For The Supermarket Industry

(Millions of Dollars)

	1974	1975	1976	1977	1978
Sales	$87,381.9	$97,867.7	$106,675.8	$116,810.0	$130,830.0
Cost of Sales and Operating Expenses	86,018.7	96,438.9	105,129.0	115,420.0	128,386.1
Interest Expenses	218.5	225.1	213.3	275.7	488.0
Total Costs and Expenses	86,237.2	96,664.0	105,342.3	115,695.7	126,874.1
Operating Income	1,144.7	1,203.7	1,333.5	1,114.3	1,955.9
Other Income	166.0	293.6	256.0	332.9	368.9
Income Before Taxes	1,310.7	1,497.3	1,589.5	1,447.2	2,324.8
Total Taxes on Income	524.3	665.5	661.4	630.8	1,024.5
Extraordinary Items-Net	(183.5)	29.4	(10.7)	23.4	31.4
Net Income	$ 602.9	$ 861.2	$ 917.4	$ 839.8	$ 1,331.7

*Includes A & P's Adjustment of Provision for Costs of Closing Facilities

End-of-Year Balance Sheet For The Supermarket Industry

(Millions of Dollars)

ASSETS	1974	1975	1976	1977	1978
CURRENT ASSETS					
Cash	$ 1,054.1	$ 1,300.1	$ 1,300.8	$ 1,716.3	$ 1,796.4
Accounts Receivable	694.2	743.3	609.6	796.5	1,029.2
Marketable Securities	412.6	545.8	522.7	565.2	867.5
Inventory (Note A)	5,535.3	5,606.2	6,602.9	6,772.3	8,241.1
Other Current Assets	442.4	482.1	649.5	565.1	601.7
Total Current Assets	8,138.6	8,677.5	9,685.5	10,415.4	12,535.9
PROPERTY AND EQUIPMENT (Note B)					
Land	398.3	451.0	538.4	678.2	618.7
Buildings	1,451.0	1,555.1	1,797.4	3,227.1	5,393.2
Fixtures and Equipment	6,586.5	6,998.0	7,707.4	8,366.9	9,771.6
Leasehold Improvements	998.7	1,166.3	1,245.2	1,371.9	1,581.3
Total Property and Equipment	9,434.5	10,170.4	11,288.4	13,644.1	17,364.8
Reserves for Depreciation	(4,327.4)	(4,540.9)	(5,053.7)	(5,884.7)	(7,512.4)
Net Property and Equipment	5,107.1	5,629.5	6,234.7	7,759.4	9,852.4
OTHER ASSETS	776.7	917.6	911.7	988.9	1,318.1
TOTAL ASSETS	$14,022.4	$15,224.6	$16,831.9	$19,163.7	$23,706.4

Note A

Some firms value at least part of their inventory on a LIFO (last in, first out) basis. If all firms had used the FIFO (first in, first out) method of valuing inventories, the year-end inventories would have been increased by:

(millions)

1974—$273.1
1975—$326.6
1976—$378.6
1977—$495.4
1978—$603.2

End-of-Year Balance Sheet For The Supermarket Industry

(Millions of Dollars)

LIABILITIES AND NET WORTH	1974	1975	1976	1977	1978
CURRENT LIABILITIES					
Notes Payable	$ 412.6	$ 398.1	$ 408.1	$ 553.2	$ 643.7
Accounts Payable	3,648.9	3,856.7	4,164.6	4,583.1	5,550.6
Income Taxes Payable	223.3	325.0	307.4	235.3	478.7
Other Current Liabilities	1,091.1	1,147.7	1,354.6	1,440.3	1,875.5
Total Current Liabilities	5,375.9	5,727.5	6,234.7	6,811.9	8,548.5
LONG-TERM DEBT					
Mortgages	469.5	715.3	764.1	1,012.7	1,250.9
Bank Loans	805.2	542.7	1,024.7	529.1	1,118.2
Bonds and Debentures	540.6	399.7	399.4	344.2	685.0
Capitalized Lease Obligations (Note B)	—	—	—	1,026.6	1,885.2
Other Noncurrent Liabilities (Note B)	398.3	517.9	356.0	635.9	759.7
Total Long-Term Debt	2,213.6	2,175.6	2,544.2	3,548.5	5,699.0
DEFERRED LIABILITIES	415.4	387.2	460.2	304.7	327.2
Total Liabilities	8,004.9	8,290.3	9,239.1	10,665.1	14,574.7
NET WORTH					
Common Stock Outstanding or Proprietorship	956.0	1,037.3	1,146.2	1,302.8	1,145.1
Preferred Stock Outstanding	85.4	108.9	138.9	218.4	170.8
Paid-in Surplus	1,173.6	1,259.6	1,328.6	1,516.2	1,620.0
Retained Earnings	3,991.7	4,754.0	5,265.6	5,754.4	6,489.8
Treasury Stock	(189.2)	(225.5)	(286.5)	(293.2)	(294.0)
Total Net Worth	6,017.5	6,934.3	7,592.8	8,498.6	9,131.7
TOTAL LIABILITIES AND NET WORTH	$14,022.4	$15,224.6	$16,831.9	$19,163.7	$23,706.4

Note B

Property under capitalized leases is included in the appropriate property categories based on the type of property leased. Capitalized lease obligations are included in other noncurrent liabilities in years prior to 1977. Amounts previously reported have not been restated in accordance with the retroactive provisions of Financial Accounting Standards Board Statement #13 because the amounts were not available.

Statement of Sources and Uses of Funds For The Supermarket Industry

	1974		1975	
	Amount ($ Million)	Percent	Amount ($ Million)	Percent
USES				
Increase in Cash and Securities	$ 293.2	13.0%	$ 379.2	25.6%
Increase in Inventory	727.0	32.3	70.9	4.8
Increase in Other Current Assets	175.2	7.8	88.8	6.0
Increase in Gross Fixed Assets*	938.1	41.7	735.9	49.6
Increase in Other Assets	114.2	5.1	140.9	9.5
Reduction in Long-Term Debt	0.8	0.1	38.0	2.6
Reduction in Deferred Liabilities	—	—	28.2	1.9
Reduction in Paid-in Capital	—	—	—	—
Total Uses of Funds	$2,248.5	100.0%	$1,481.9	100.0%
SOURCES				
Increase in Reserves for Depreciation	$ 556.2	24.7%	$ 213.5	14.4%
Increase in Accounts Payable	584.8	26.0	207.8	14.0
Increase in Other Current Liabilities	294.2	13.1	143.8	9.7
Increase in Long-Term Debt*	—	—	—	—
Increase in Deferred Liabilities	92.9	4.1	—	—
Increase in Retained Earnings	392.9	17.5	762.3	51.5
Increase in Paid-In Capital	327.5	14.6	154.5	10.4
Reduction in Cash and Securities	—	—	—	—
Reduction in Other Assets	—	—	—	—
Total Sources of Funds	$2,248.5	100.0%	$1,481.9	100.0%

*Property under capitalized leases is included in the appropriate property categories based on the type of property leased. Capitalized lease obligations are included in other noncurrent liabilities in years prior to 1977. Amounts previously reported have not been restated in accordance with the retroactive provisions of Financial Accounting Standards Board Statement #13 because the amounts were not available.

Statement of Sources and Uses of Funds For The Supermarket Industry

1976		1977		1978	
Amount ($ Million)	Percent	Amount ($ Million)	Percent	Amount ($ Million)	Percent
$ —	— %	$ 458.0	13.8%	$ 382.4	6.2%
996.7	46.4	169.4	5.1	1,468.8	23.4
33.7	1.6	102.5	3.1	269.3	4.3
1,118.0	52.0	2,355.7	71.0	3,720.7	59.3
—	—	77.2	2.3	329.2	5.2
—	—	—	—	—	—
—	—	155.5	4.7	—	—
—	—	—	—	102.3	1.6
$2,148.4	100.0%	$3,318.3	100.0%	$6,272.7	100.0%
$ 512.8	23.9%	$ 831.0	25.0%	$ 1,627.7	25.9%
307.9	14.3	418.5	12.6	967.5	15.4
199.3	9.3	158.7	4.8	769.1	12.3
368.6	17.2	1,004.3	30.3	2,150.5	34.3
73.0	3.4	—	—	22.5	0.4
511.6	23.8	488.8	14.7	735.4	11.7
146.9	6.8	417.0	12.6	—	—
22.4	1.0	—	—	—	—
5.9	0.3	—	—	—	—
$ 2,148.4	100.0%	$3,318.3	100.0%	$6,272.7	100.0%

METHODOLOGY

The Annual Financial Review was developed from three sources of data:

1) The 1972 Census of Retail Trade (7,165 firms reported)
2) A mail survey of FMI members
3) Securities and Exchange Commission Forms 10-K filed by publicly owned supermarket firms

A stratification of sales of the supermarket population was obtained by a special tabulation of the 1972 Census of Retail Trade. The sales dollars reported in Table 1 may differ from other industry reports because the stores considered in this Census are limited to those with at least 50% of their sales in grocery and food items and may not include large department stores which have food departments. Support facilities such as warehouses, transportation equipment, offices and backup inventories are considered part of the industry. The definition of a supermarket for this report is a grocery store doing more than $1 million in annual sales.

Financial statements were supplied by 136 FMI member firms. Financial data for the larger firms that did not respond to the FMI mail survey were obtained from their Form 10-K reports filed with the Securities & Exchange Commission. In all, data were collected on 146 firms operating over 12,900 stores. Industry sales were extrapolated from various other published and unpublished sources.

The individual financial statements were put into four strata based on sales volume (see Table 1). Means were calculated for each strata and the statistics for each strata were then weighted using the relationships shown in Table 1 to develop the industry averages reported. The use of the Census sales statistics helps eliminate year-to-year changes that result from changes in the sample of firms submitting financial data.

This method of estimating industry financial statistics does not totally eliminate the problem of segregating supermarket operations from other lines of business in a diversified company, but it does provide the best published measurement of trends in the industry's capital structure.

TABLE 1

Supermarket Population Based on the 1972 Census of Retail Trade*

Firm Sales (millions)	% of Total Firms	1972 Sales (millions)	% of Total Sales
Less than $10.0	94.3%	$14,647.1	22.3%
$10.0-$99.9	4.6	9,398.5	14.3
$100.0-$499.0	0.8	11,601.6	17.6
$500.0 and over	0.3	30,154.9	45.8
TOTAL	100.0%	$65,802.1	100.0%

*Source: U.S. Census Bureau

Food Marketing Institute, a non-profit trade association, conducts programs in research, education and public affairs on behalf of its members—retailers and wholesalers from corner stores to supermarket chains—and their customers. FMI Membership includes food chains, independent grocers, voluntary wholesalers and cooperatives in the United States, Canada and about 30 foreign countries.